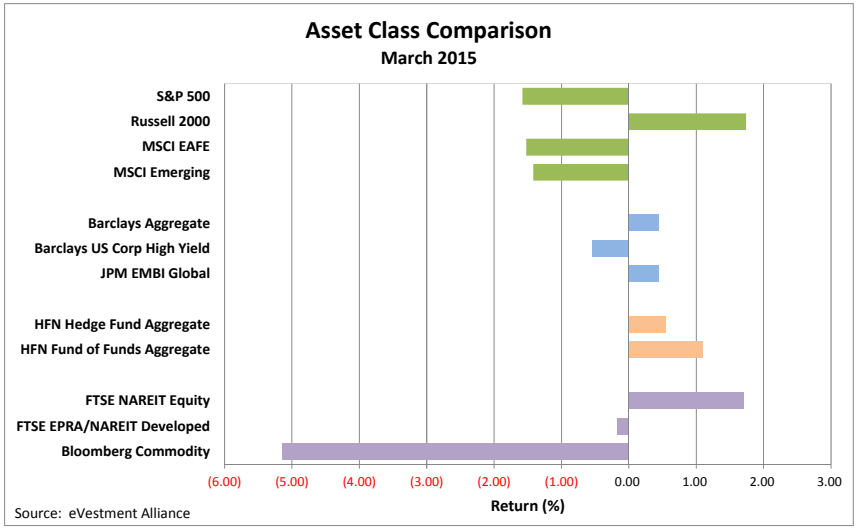
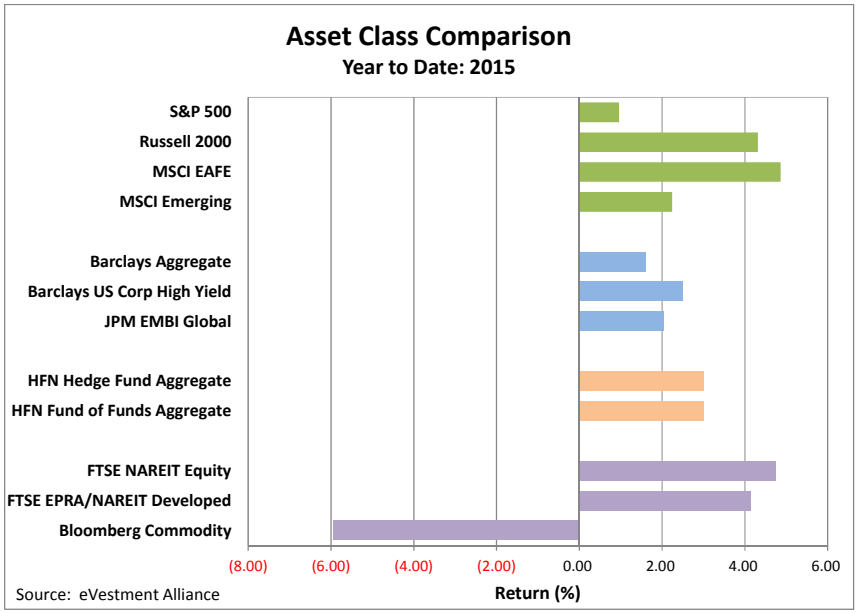
MESA: Monthly Market Flash

March 2015





Market Overview

- Global equity markets experienced a pullback in March reversing some of the strong gains recognized in February. A string of soft economic data releases in the U.S. coupled with concerns over oil price declines, global disinflationary pressures, economic weakness abroad and trepidation over looming Fed rate hikes weighed on sentiment. The Fed policy announcement following the Federal Reserve Open Market Committee (FOMC) meeting on March 18th contained a change in language surrounding the timing of target rate hikes. Language indicating that the committee would be "patient" in raising rates was removed from the statement while also mentioning that an increase in rates during the April meeting would be unlikely. The next FOMC policy announcements are scheduled for April 29th and June 17th.

- In currency markets, the U.S. dollar continued its ascent versus most major and emerging market currencies. Dollar strength, soft economic data and equity market weakness drove bond markets higher on the month. In addition, the Fed Chair did a masterful job at reassuring market participants that removing the Fed statement reference regarding patience did not mean that they would be impatient. The dovish comments and concurrent release of the Fed's new estimates for slower growth and lower inflation, right after the meeting, also served to keep interest rates in check.

- Asset class performance was mixed in March. Performance outliers on the upside included U.S. real estate and small caps, which provide investors some protection from weak fundamentals overseas, given their domestic market orientation. Oil prices declined on reports of rising inventories and despite rising tensions in the Middle East with Saudi Arabia's airstrikes on Yemen. For the quarter, performance was decent across asset classes with U.S. large caps lagging on concerns over full valuations and the potential for earnings disappointments on dollar strength and challenges in the energy complex. Developed market equities recognized a strong surge on dovish Fed comments and as QE commenced in Europe. Better than expected economic readings out of Europe during the month also helped as did a clear trend in flows out of the U.S. and in to international mutual funds.

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Equity Markets

- While the month started out with a strong tone to markets and a favorable employment report, sentiment changed quickly on concerns over Fed rate hikes and the negative impact of a strong dollar on corporate earnings. Later in the month a string of weaker economic data also took its toll. The S&P 500 Index ended the month with a loss of 1.58%.

- Large cap stocks were the worst relative performers on the month with value modestly underperforming growth across the capitalization spectrum. Most industry sectors were down on the month except for healthcare which benefited from a flurry of M&A activity. Materials were the month's most significant laggards on the strong dollar and weakness in the manufacturing sector. Small capitalization stocks handily outperformed large caps as small cap revenues are driven more heavily by domestic market activity. The quarter wrapped up with small capitalization stocks and growth oriented companies beating value by a wide margin.

- In overseas markets, the MSCI EAFE Index lost 1.52% in U.S. Dollar terms in March on U.S. Dollar strength against the Euro and U.K. Pound Sterling. The EAFE Index was up 1.40% on local currency terms. Economic readings out of the U.K. were solid showing better than expected manufacturing, construction and retail sales data although inflation readings were quite weak. Weighing heavily on the currency are uncertainties surrounding Parliamentary elections in May. The GBP was down 3.97% versus the U.S. Dollar in March while the Euro was down 4.15%. The ECB commenced its asset purchase program in March which has put further pressure on its currency. In Japan, efforts to stimulate the economy helped the country emerge from a recession and boosted markets although recent estimates of 4th quarter GDP were revised lower during the month. The Yen declined a modest 0.42% versus the USD.

- The MSCI Emerging Markets Index declined 1.42% in March dragged down by weakness in Brazil, Mexico and other commodity exporting countries as they grapple with slower growth. Brazil's currency declined by 11% in March. In Asia, equity markets in China surged as the market expected further stimulus measures to boost the economy.

Russell U.S. Equity Index Style and Capitalization Returns (%)

March 2015

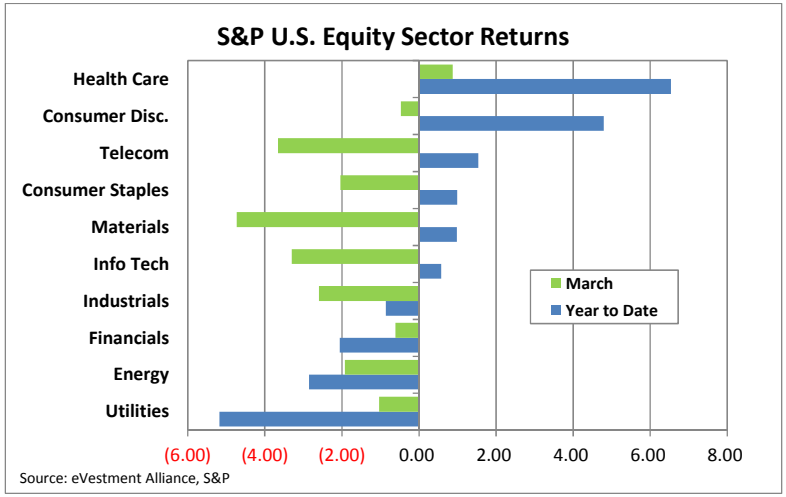
	Growth	Broad	Value
Large Cap	(1.14)	(1.25)	(1.36)
Mid Cap	0.28	0.06	(0.18)
Small Cap	1.80	1.74	1.69

Source: eVestment Alliance, Russell Indices

Year to Date

	Growth	Broad	Value
Large Cap	3.84	1.59	(0.72)
Mid Cap	5.38	3.96	2.43
Small Cap	6.64	4.31	1.98

Source: eVestment Alliance, Russell Indices



Non-U.S. Developed Market Returns (%)

	Month	Year to Date
MSCI EAFE ($)	(1.52)	4.88
MSCI Europe ($)	(2.66)	3.45
MSCI UK ($)	(5.85)	(0.96)
MSCI Japan ($)	1.53	10.21
MSCI Pacific ex Japan ($)	(1.31)	3.14

Source: eVestment Alliance, MSCI

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	(1.42)	2.25
MSCI EM Asia ($)	0.36	5.26
MSCI EM EMEA ($)	(2.92)	1.95
MSCI EM Latin America ($)	(7.48)	(9.56)

Source: eVestment Alliance, MSCI

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U.S. Fixed Income Returns (%)

	Month	Year to Date
Barclays Aggregate	0.46	1.61
Barclays Government	0.61	1.60
Barclays U.S. TIPS	(0.47)	1.43
Barclays U.S. Inv. Grade Corp.	0.32	2.32
Barclays U.S. Mortgaged Backed	0.37	1.06
Barclays U.S. High Yield	(0.55)	2.52
Credit Suisse Leveraged Loan	0.39	2.07

Source: eVestment Alliance, Barclays, Credit Suisse

Non-U.S. Fixed Income Returns (%)

	Month	Year to Date
Citigroup Non-U.S. WGBI Hedged	0.83	2.25
Citigroup Non-U.S. WGBI Unhedged	(1.91)	(4.36)
JP Morgan EMBI Global	0.46	2.06

Source: eVestment Alliance, Citigroup, JP Morgan

Fixed Income Market

- Interest rates declined and the yield curve steepened slightly on the month. Interest rates on 5-year maturity Treasuries recognized the largest decline as weakness in economic data and the Fed's dovish comments tempered expectations for the timing and magnitude of target rate hikes. The more policy sensitive 2-year and 5-year Treasury yields declined by 6 and 13 bps, respectively, while the 10-year Treasury yield ended the month down 7 bps at 1.92%.

- U.S. Treasuries were one of the best performing fixed income sectors for the month as were asset-backed and commercial mortgage-backed securities given their exposure to U.S. consumers and commercial real estate which continues to benefit from strong fundamentals. U.S. Treasury Inflation Protected Securities (TIPS) underperformed given persistent disinflationary pressures. Breakeven inflation rates, which are a gauge of the market's expectation for future inflation, declined by 7 bps on the 5-year and 10-year maturity TIPS to 1.57% and 1.77%, respectively. By month's end, real yields for the 5- and 10-year TIPS were -0.36% and 0.15%, respectively.

- Investment grade corporate bonds underperformed comparable duration Treasury securities by 43 bps on the heels of heavy new issuance and weakness in the equity market. Speculative grade high yield securities were also challenged in March and experienced a pullback in sympathy with the equity market, on fund outflows, and new issuance supply. Bank loans were more resilient than high yield bonds on lack of supply returning 0.39%. Residential mortgage-backed securities (MBS) underperformed like duration Treasuries by 7 bps on reports that showed a greater than expected level of prepayments.

- Developed market interest rates declined despite better than expected economic reports out of Europe as QE commenced in earnest. Weakness in emerging markets also weighed on global rates. China and India cut interest rates during the month and the U.S. dollar continued to strengthen versus most currencies creating headwinds for U.S. investors.

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Liquid Alternative Strategies

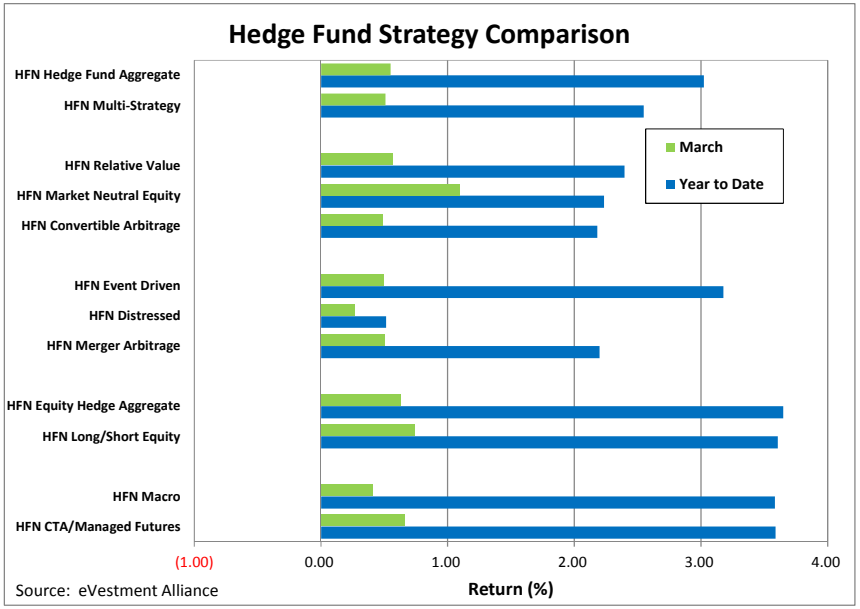
- Hedge fund strategies generated decent returns for the month despite the pullback in equities. The best relative performance in the long/short equity segment came from equity market neutral strategies followed by long/short managers that focused on segments such as healthcare.

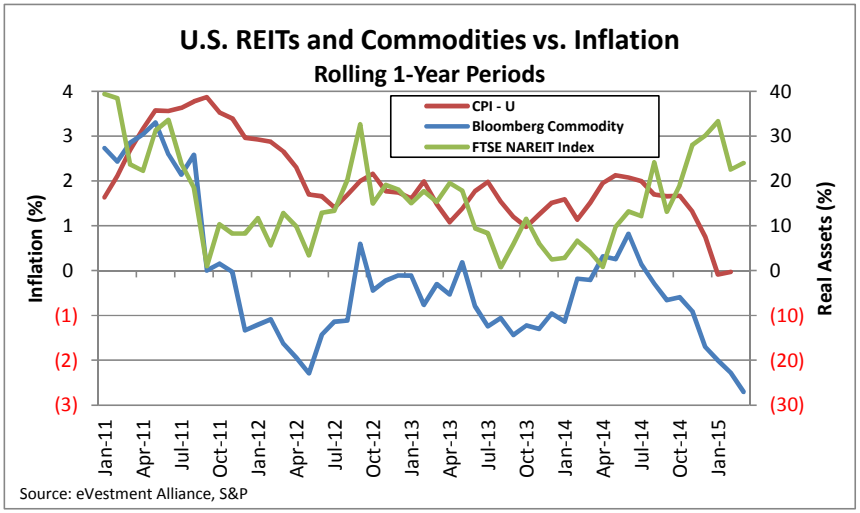
- Robust M&A activity drove event driven strategies higher for the month. Actavis acquisition of Allergan was completed in the middle of the March while Valeant raised its takeover price for Salix Pharmaceuticals to knock out rival bidder Endo International. Late in the month, Heinz and Kraft Foods announced their intent to merge in a deal that was orchestrated by Warren Buffet and Brazilian private equity firm 3G Capital. Global M&A activity is up more than 20% in the first quarter on a year-over-year basis.

- Global macro strategies continued to benefit from trends in rates, currency and commodity markets. Global macro is one of the best performing hedge fund strategies for the quarter. Overall, hedge funds have put in solid performance for the quarter making this one of the best quarters for hedge funds in years. Performance is reflective of strong macro trends, fuller equity valuations and increasing levels of volatility which open up opportunities for hedge fund strategies.

- In the real assets segment, commodities lost 5.14% in March and ended the quarter with a decline of nearly 6% after falling 17% in 2014. For the month of March, price declines were widespread across the commodity complex with energy (-9.2%) down the most driven by a 10.5% decline in crude oil prices. Agriculture was down by 5.4% while gold was down 2.6% on the month.

- Real estate markets continue to do well on strong property fundamentals in the U.S. and interest rate declines. REITS had a strong month returning more than 1.7% and adding to the quarter's returns of 4.7%. In the U.S., strong performance was recognized in apartments, regional malls and office properties.





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